

Economic Freedom of the World

2017 Annual Report

by James Gwartney, Robert Lawson, and Joshua Hall

The index published in *Economic Freedom of the World* measures the degree to which the policies and institutions of countries are supportive of economic freedom. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to enter markets and compete, and security of the person and privately owned property. Forty-two data points are used to construct a summary index and to measure the degree of economic freedom in five broad areas.

Area 1: Size of Government—As spending and taxation by government, and the size of government-controlled enterprises increase, government decision-making is substituted for individual choice and economic freedom is reduced.

Area 2: Legal System and Property Rights—Protection of persons and their rightfully acquired property is a central element of both economic freedom and civil society. Indeed, it is the most important function of government.

Area 3: Sound Money—Inflation erodes the value of rightfully earned wages and savings. Sound money is thus essential to protect property rights. When inflation is not only high but also volatile, it becomes difficult for individuals to plan for the future and thus use economic freedom effectively.

Area 4: Freedom to Trade Internationally—Freedom to exchange—in its broadest sense, buying, selling, making contracts, and so on—is essential to economic freedom, which is reduced when freedom to exchange does not include businesses and individuals in other nations.

Area 5: Regulation—Governments not only use a number of tools to limit the right to exchange internationally, they may also develop onerous regulations that limit the right to exchange, gain credit, hire or work for whom you wish, or freely operate your business.

Gender Disparity Index

This year the index published in *Economic Freedom of the World* includes an adjustment for gender disparity to take into account the fact that in many nations women are not legally accorded the same level of economic freedom as men.

Related research

Since our first publication in 1996, numerous studies have used the data published in *Economic Freedom of the World* to examine the impact of economic freedom. Virtually without exception, these studies have found that countries with institutions and policies more consistent with economic freedom have higher investment rates, more rapid economic growth, higher income levels, and a more rapid reduction in poverty rates.

The EFW index now ranks 159 countries and territories. Data available for approximately 100 nations and territories back to 1980, and for many back to 1970, make it possible for scholars to analyze the impact of cross-country differences in economic freedom and changes in that freedom across three decades.

Economic freedom around the world in 2015

Top-rated countries

Hong Kong and Singapore, once again, occupy the top two positions. The other nations in the top 10 are New Zealand, Switzerland, Ireland, the United Kingdom, Mauritius, Georgia, Australia, and Estonia.

Other major countries

The rankings of some other major countries are the United States, tied with Canada at 11th, Germany (23rd), South Korea (32nd), Japan (39th), France (52nd), Italy (54th), Mexico (76th), India (95th), Russia (100th), China (112th), and Brazil (137th).

Lowest-rated countries

The 10 lowest-rated countries are: Iran, Chad, Myanmar, Syria, Libya, Argentina, Algeria, the Republic of the Congo, the Central African Republic, and, lastly, Venezuela.

Who's up? Who's down?

The five nations showing the biggest declines in economic freedom from 2000 to 2015 are Venezuela, Argentina, Bolivia, Iceland, and Greece. The five nations with the largest gains in economic freedom over the period are Romania, Bulgaria, Rwanda, Albania, and Cyprus.

Nations that are economically free out-perform non-free nations in indicators of well-being

Nations in the top quartile of economic freedom had an average per-capita GDP of \$42,463 in 2015, compared to \$6,036 for bottom quartile nations (PPP constant 2011 US\$). ■ In the top quartile, the average income of the poorest 10% was \$11,998, compared to \$1,124 in the bottom quartile in 2015 (PPP constant 2011 US\$). Interestingly, the average income of the poorest 10% in the most economically free nations is almost twice the average per capita income in the least free nations. ■ Life expectancy is 80.7 years in the top quartile compared to 64.4 years in the bottom quartile.

Chapter 1: Economic Freedom of the World in 2015

The authors of the report, James Gwartney, Robert Lawson, and Joshua Hall, provide an overview of the report and discuss why economic freedom is important.

Chapter 2: Country Data Tables

Detailed historical information is provided for each of the 159 countries and territories in the index.

Chapter 3: Adjusting for Gender Disparity in Economic Freedom and Why It Matters

By Rosemarie Fike

The adjustment for gender disparity applied this year to Area 2, Legal System and Property Rights, of the index published in *Economic Freedom of the World* takes into account the fact that in many nations women are not legally accorded the same level of economic freedom as men. The EFW index uses many

objective measures that, on their own, implicitly assume that all members of society have equal access to economic institutions, but formal legal restrictions to the economic rights of women in many countries prevent a significant portion of the population from engaging in mutually beneficial exchanges. The negative adjustment factor for gender disparity is smaller in economically free nations than in non-free nations.

Chapter 4: Economic Freedom, Social Protections, and Electoral Support for Anti-Immigrant Populist Parties in 27 Industrial Democracies

By Krishna Chaitanya Vadlamannati and Indra de Soysa

Some propose that the rise of anti-immigrant, nativist populism is the result of economic insecurity arising from globalization and suggest greater social protections can diminish communal disharmony. Others suggest that anti-immigrant sentiment is driven by “welfare chauvinism”, where residents enjoying high levels of social welfare see immigrants as threatening their livelihood. The authors test these propositions and find that the positive effect of a bigger immigrant share of the population on support for nativist populism is conditional upon higher degrees of social welfare, which reduces economic freedom.

Chapter 5: Economic Freedom in South Africa and the Constraints on Economic Policy

By Richard J. Grant

The index published in the *Economic Freedom of the World* covers two very distinct eras in South African history: the apartheid era and that after the transition to the “new South Africa” in 1994. The author describes in detail the rise in economic freedom and the subsequent decline. He concludes: “As economic freedom has decreased, the GDP growth rate has declined, as would be expected.”



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